

**The Internal Revenue Service Needs to Ensure
That Its Future Annual Program Performance
Reports Include All Requested Information**

November 2000

Reference Number: 2001-10-009

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

November 24, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Needs to
Ensure That Its Future Annual Program Performance Reports
Include All Requested Information

This report presents the results of our review of the Fiscal Year (FY) 1999 Annual Program Performance Report (APPR) as it relates to the Government Performance and Results Act of 1993 (GPRA).¹ The overall objective of this review was to assess the adequacy and completeness of the FY 1999 APPR.

In summary, we found that the Internal Revenue Service's (IRS) FY 1999 APPR contained much, but not all, of the information requested in Office of Management and Budget (OMB) Circular No. A-11 (1999), Department of the Treasury guidance, and letters from the Chairman, Senate Governmental Affairs Committee. Thus, improvements can be made in future APPRs to provide all of the requested information and to make the APPRs more useful to the report readers.

In commenting on a draft of this report, IRS management agreed to take corrective action on two of the three recommendations. IRS management believes our recommendation for a more complete assessment of actual performance and its impact on expected future performance for all performance measures is not necessary. Management stated that, based on their discussions with personnel in the Department of the Treasury and the OMB, they believe that Section 232.8 of OMB Circular A-11 does not apply. However, IRS management stated that they do plan to provide more

¹ Pub. L. No. 103-62, 107 Stat. 285.

information, as appropriate, when performance measures are fully operational in the new IRS organization. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Internal Revenue Service Needs to Ensure That Its Future Annual
Program Performance Reports Include All Requested Information**

Table of Contents

Executive Summary.....	Page i
Objective and Scope.....	Page 1
Background	Page 2
Results	Page 3
Future Annual Program Performance Reports Could More Fully Expand on the Information Requested	Page 4
Conclusion.....	Page 11
Appendix I – Detailed Objective, Scope, and Methodology	Page 12
Appendix II – Major Contributors to This Report.....	Page 13
Appendix III – Report Distribution List.....	Page 14
Appendix IV – Management’s Response to the Draft Report.....	Page 15

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Executive Summary

This audit was performed as part of the Treasury Inspector General for Tax Administration's overall strategy to assess the implementation of the Government Performance and Results Act of 1993 (GPRA).¹ Our overall objective was to assess the adequacy and completeness of the Internal Revenue Service's (IRS) Fiscal Year (FY) 1999 Annual Program Performance Report (APPR).

The GPRA is intended to improve agency performance and provide objective information to Congressional and Executive Branch decision-makers to assist them in appropriating and allocating federal funds. The GPRA required executive agencies to prepare and submit to the President and the Congress their first annual program performance report by March 31, 2000.

An annual report must compare actual performance with the projected levels of performance set out in an annual performance plan. When a projected performance level is not met, the report should include an explanation for not achieving the goal and describe steps for meeting the goal in the future. The report should also assess the effect of past year performance on current year performance levels.

The IRS' first APPR was submitted as part of its Fiscal Year 2001 Congressional Justification on February 7, 2000. Our assessment of the FY 1999 APPR was divided into two separate audits, Phase I and Phase II. During the Phase I audit, we assessed the IRS' progress made through January 2000 to assemble verified and validated data for the FY 1999 APPR. Our findings and recommendations were presented in a report issued to the IRS on March 31, 2000.²

Results

The IRS' first APPR met many of the requests contained in the Office of Management and Budget (OMB) Circular, Department of the Treasury guidance, and letters from the Chairman, Senate Governmental Affairs Committee. However, some areas could be improved to ensure that future reports are more useful to the stakeholders.

¹ Pub. L. No. 103-62, 107 Stat. 285.

² *Letter Report: The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress* (Reference Number 2000-10-061, dated March 2000).

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Future Annual Program Performance Reports Could More Fully Expand on the Information Requested

The current management control process could be improved to ensure that future APPRs more fully expand on the information requested by the OMB, the Department of the Treasury, and the Congress. Without more fully expanding on the requested information, Congressional and Executive Branch decision-makers may not have all of the objective information needed to assist them in appropriating and allocating federal funds. Also, the IRS' largest stakeholder group, taxpayers, may not be able to assess whether tangible public benefits have been produced.

In our opinion, the FY 1999 APPR could have been improved by expanding on the following elements requested by the OMB Circular, Department of the Treasury guidance, and the Chairman, Senate Governmental Affairs Committee:

- Quantitative performance measures should be presented for all major management challenges and high-risk areas.
- Summaries of the findings and recommendations of the program evaluations completed during the fiscal year could be more complete. Program evaluations were completed during the year for 2 of 17 (11.8 percent) activities. Additionally, only 3 of 8 (37.5 percent) "Program Evaluations, Risk Analyses, and Strategic Studies" included a summary that described both the findings and recommendations.
- A more complete assessment of actual performance and its impact on expected future performance could be presented for all performance measures. In this regard, the IRS did not provide a complete assessment of the effect of actual performance levels on expected future performance for 54 of its 68 (79.4 percent) performance measures.

Summary of Recommendations

Additional actions are needed to ensure that future APPRs provide stakeholders with all the information requested by the OMB, the Department of the Treasury, and the Congress. We recommended that the Deputy Chief Financial Officer for Strategic Planning and Budgeting ensure that the APPRs more fully expand on the information requested. Special attention should be given to including quantitative performance measures for all management challenges and high-risk areas, providing complete summaries of all findings and recommendations of program evaluations completed during the fiscal year, and providing more complete assessments of actual performance and its impact on expected future performance.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Management's Response: IRS management agreed in general with our first two recommendations. They did not agree with our third recommendation that a more complete assessment of actual performance and its impact on expected future performance for all performance measures should be included in the APPR. In particular, they believe that the measures that were baselined, had no targets, or were shown as "To Be Determined," did not need any explanation when shown in a tabular form. Management's complete response is included in Appendix IV of this report.

Office of Audit Comment: We continue to believe that more complete explanations of changes to goals from 1 year to the next are very beneficial to any readers of the APPR. We also believe that some explanation is needed to fully comply with OMB requirements. In addition, IRS management did not address the 6 measures that we identified as changed from 1 year to the next and we believed were not adequately explained. We encourage IRS management to reconsider their interpretation of OMB Circular A-11 Section 232.8 and provide more explanations of prior year efforts.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Objective and Scope

This audit is part of the Treasury Inspector General for Tax Administration's (TIGTA) overall strategy to assess the implementation of the Government Performance and Results Act of 1993 (GPRA).¹ Our assessment of the Internal Revenue Service's (IRS) first Annual Program Performance Report (APPR) has been divided into two separate audits, Phase I and Phase II.

During the Phase I audit, we assessed the IRS' progress made through January 2000 to assemble verified and validated data for the Fiscal Year (FY) 1999 APPR due on March 31, 2000. Our findings and recommendations were presented in a report issued to the IRS on March 31, 2000.²

The objective of this review was to assess the adequacy and completeness of the IRS' FY 1999 APPR.

The overall objective of this Phase II audit was to assess the adequacy and completeness of the IRS' FY 1999 APPR, submitted as part of the Fiscal Year 2001 Congressional Justification (Document 10968 [Rev. 01-2000]). We performed this audit from February 2000 to May 2000 in accordance with *Government Auditing Standards*.

The scope of our audit work was limited to reviewing the FY 1999 APPR and meeting with various stakeholders. The criteria we used for our assessment were Office of Management and Budget (OMB) Circular No. A-11 (1999) Part 2 - Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports, Department of the Treasury guidance, and letters from the Chairman, Senate Governmental Affairs Committee.

¹ Pub. L. No. 103-62, 107 Stat. 285.

² *Letter Report: The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress* (Reference Number 2000-10-061, dated March 2000).

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

We reviewed each of the 68 performance measures³ to determine whether all the requested elements of the OMB Circular and Treasury guidance were included.

During our audit, we met with IRS staff members of the Office of Strategic Planning and Budgeting (SPB) and the Office of Program Evaluation and Risk Analysis in Washington, D.C. We also met with members of the Office of Strategic Planning and Evaluation of the Department of the Treasury in Washington, D.C., and held discussions with a staff member of the OMB.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The GPRA is intended to improve the quality and delivery of government services.

The GPRA was enacted by the Congress in 1993 and is intended to improve the quality and delivery of government services. The GPRA holds federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement.

In FY 1999, federal agencies were required to submit to the President and the Congress annual performance plans that set annual goals with measurable target levels of performance. Beginning with FY 2000, each federal agency is required to submit an APPR on its success in achieving the goals established in the prior year's performance plan.

The overall goal of the GPRA is to improve agency performance and to provide objective information to Congressional and Executive Branch decision-makers to assist them in appropriating and allocating federal funds. The GPRA was also intended to provide taxpayers with information to allow them to assess the extent to which the IRS is producing tangible public benefits.

³ A performance goal or a performance indicator.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

In December 1999, in response to a prior TIGTA audit report,⁴ the IRS made the SPB office responsible for overseeing and coordinating the implementation of all the GPRA-related activities. The SPB office is responsible for working with the functions in the preparation of the IRS' APPR. This includes providing instructions to the operating functions on data requirements, reviewing data provided by the functions, and producing a consolidated APPR.

Results

The IRS' first APPR (submitted on February 7, 2000) met many of the requests contained in the OMB Circular, Treasury guidance, and letters from the Chairman, Senate Governmental Affairs Committee. The IRS adequately compared actual performance with projected levels of performance, explained unmet goals, and described plans and schedules to meet unmet goals. However, to improve future reports, quantitative performance measures should be presented for all major management challenges and high-risk areas. Summaries of the findings and recommendations of the program evaluations of the IRS activities could be more complete. Finally, a more complete assessment of actual performance and its impact on expected future performance could be presented for all performance measures.

⁴ *The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied* (Reference Number 2000-10-016, dated December 1999).

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Future Annual Program Performance Reports Could More Fully Expand on the Information Requested

The IRS could more completely comply with the OMB requests, Treasury guidance, and letters from the Chairman, Senate Governmental Affairs Committee, by addressing the following three areas:

- Quantitative performance measures should be presented for all major management challenges and high-risk areas.
- Summaries of the findings and recommendations of the program evaluations completed during the fiscal year could be more complete.
- A more complete assessment of actual performance and its impact on expected future performance could be presented for all performance measures.

Quantitative performance measures should be presented for all major management challenges and high-risk areas

In August 1999, the Chairman, Senate Governmental Affairs Committee, asked the Secretary of the Treasury to provide the status of the high-risk areas and major management challenges previously identified by the General Accounting Office (GAO) and the Department of the Treasury's Inspector General (TIG). The Secretary responded, "We believe we have made considerable progress in addressing many of the problems and challenges that have been identified. We also recognize the need to ensure that Congress and the public fully understand the priority we place on meeting these challenges and are able to measure our progress in doing so."

The Department of the Treasury issued a memorandum dated January 3, 2000, entitled "FY 2001 Congressional Budget, Performance Plan and Performance Report Submission." This document contained specific guidance and model documents for bureaus to use in

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

developing their FY 1999 APPRs. The model document contained instructions calling for the bureaus to include relevant performance measures and/or FY 1999 accomplishments for each major management challenge and high-risk area. In addition, bureaus were to have cross-referenced each performance measure to the appropriate budget activity code(s). A list of major management challenges and high-risk areas identified by the GAO, the TIG, and the TIGTA was presented for each bureau.

In May 2000, the Chairman, Senate Governmental Affairs Committee, requested that Inspectors General, using these management challenges as a framework, analyze “what performance goals and measures from the agency’s FY 1999 performance plan relate directly to each of the management challenges.” While this request was made after the APPR had been submitted, the Congressional interest expressed in late 1999 and the specific instructions from the Department of the Treasury clearly indicated that specific performance goals for major management challenges and high-risk areas should have been included in the FY 1999 APPR.

Thirteen major challenges did not have specific quantitative goals.

The IRS presented a “Special Analysis” section in its FY 2001 Congressional Justification that lists its 13 major management challenges and high-risk areas as identified by the GAO and TIGTA. In addition, the IRS described the actions it has completed or has planned or under way for each major management challenge and high-risk area.

For example, “Tax Filing Fraud” is the first major management challenge or high-risk area listed. One of the four actions reported as having been completed for this major management challenge in FY 1999 is as follows:

“Developed and implemented the private sector fraud control requirements for Electronic Filing participants, e.g., Electronic Return Originators, software developers, and transmitters.”

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

However, the IRS did not include relevant performance measures or cross-reference to the appropriate budget activity code(s) for this action or for any of its 13 major management challenges and high-risk areas presented in the “Special Analysis” section.

In our opinion, a list of actions does not demonstrate progress toward resolving major management challenges or high-risk areas. While the guidance from the OMB indicates that in some instances “major milestones” can be used in developing performance plans, we believe they are of limited value. In the example cited, the results of the actions were missing. As a result, the IRS was not able to address the outcome of its actions for implementing fraud controls. Without specific quantitative measures, it will be difficult for the reader of the report to assess the success or impact of the actions the IRS has completed or has under way for each major challenge.

In our opinion, performance measures should have been established and presented for each of the 13 major management challenges and high-risk areas. If the results were contained elsewhere in the report, cross-references should have been made to the appropriate budget activities. If measures could not be established, the reasons for not establishing and presenting the performance measures should have been given in the “Special Analysis” section.

Summaries of the findings and recommendations of the program evaluations completed during the fiscal year could be more complete

Section 232.2 (a) of the OMB Circular requires a summary of the findings and recommendations of any program evaluations⁵ completed during the fiscal year. If no evaluations were completed, the report should note the exceptions.

⁵ Program evaluations are an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended objectives.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

The APPR should present a summary of the findings and recommendations of program evaluations completed during the year.

The IRS reports all of its programs, functions, or operations under at least 2 of its 17 Budget Activity Codes. Program evaluations were completed during FY 1999 for 2 of the 17 Budget Activity Codes, Criminal Investigation and Examination. These evaluations were reported under the heading “Summary Findings of Program Evaluations Completed During FY 1999.” While the IRS presented information on the 2 evaluations conducted, we would suggest the addition of a statement affirming that they were the only 2 conducted for the 17 Budget Activity Codes.

In addition, the “Program Evaluations, Risk Analyses, and Strategic Studies” table in the FY 2001 Congressional Justification shows that only 3 of the 8 (37.5 percent) studies (Problem Solving Days, Excise Tax Processing, and Correspondence Timeliness) included a summary that described both the findings and recommendations. The summaries presented for the other five studies described either the scope of the work or statements of the work performed but not the findings and recommendations. The table listing the studies would be more useful to readers if it contained summaries of the findings and recommendations of each study.

A more complete assessment of actual performance and its impact on expected future performance could be presented for all performance measures

Section 232.8 of the OMB Circular requires an assessment of the effect of actual performance levels in the fiscal year covered by the report (FY 1999) on the estimated levels of performance in the current fiscal year (FY 2000). The Department of the Treasury guidance requested the IRS to present the year-to-year performance information in a table. The Treasury guidance also requested an “explanation” of the final FY 2000 performance goals and provided a narrative example.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

The APPR should contain an assessment of the effect of actual performance levels in FY 1999 on the estimated levels of performance in FY 2000.

The IRS provided an adequate assessment of the effect of actual performance levels in FY 1999 for 14 (20.6 percent) of its 68 performance measures reported in the FY 2000 Final Performance Plan. Of the remaining 54 measures, 6 were inadequately assessed and 48 were not assessed at all.

Of the 48 performance measures that were not assessed, 35 (72.9 percent) were shown in the FY 2000 Proposed Performance Plan with “To Be Determined” (TBD) as their goals. The majority of the remaining 13 (27.1 percent) performance measures that were not assessed had performance goals in the FY 2000 Proposed Performance Plan. In our opinion, by the time the FY 1999 APPR was submitted, the IRS should have had the FY 1999 performance data available and used the data to explain how actual results in FY 1999 affected the final performance goals for FY 2000.

An example of an adequate assessment of a performance measure given by the IRS is shown in the Submission Processing measure titled Number of TeleFile Returns. The FY 1999 actual performance level was 5.7 million. The proposed FY 2000 goal of 7-7.8 million for the Number of TeleFile Returns filed by taxpayers was revised downward in the FY 2000 Final Plan to 5.9 million because of the experience of the FY 1999 Filing Season. The IRS determined that this decline resulted because previous users of the TeleFile claimed the Lifetime Credit for Students and Hope Scholarship Credits, and were no longer qualified to file through TeleFile, or shifted to on-line filing.

In contrast, an example of an inadequate assessment of a performance measure given by the IRS is shown in the Tax Exempt and Government Entities performance measure labeled Employee Plans (EP) Examination Timeliness (days). The FY 1999 actual performance level was 191 days and the FY 2000 Final Plan performance level was 200 days. The IRS explained that the FY 2000 performance plan goal for EP Examination Timeliness was revised to account for actual experience in FY 1999, but there is no

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

explanation of why 9 more days will be required to work these cases.

Recommendations

To ensure that future APPRs provide stakeholders with all the information requested, we recommend that the Deputy Chief Financial Officer for Strategic Planning and Budgeting ensure that APPRs more fully expand on the information requested by:

1. Ensuring that quantitative performance measures are presented for all major management challenges and high-risk areas.

Management's Response: IRS management agreed to explore ways to provide more cross-references to other sections of the document.

2. Giving special attention to including summaries of all findings and recommendations of program evaluations completed during the fiscal year.

Management's Response: IRS management agreed to try to provide more information on the findings and recommendations in the program evaluation section of the APPR.

3. Ensuring that a more complete assessment of actual performance and its impact on expected future performance is included where applicable.

Management's Response: IRS management stated that it is their understanding that the Department of the Treasury's required tabular format presentation satisfies the OMB Circular A-11 requirements in all cases except those of unusual or counter-intuitive changes from 1 year to the next. In addition, they stated that the tabular presentation provided the reader with the best assessment of what could be accomplished in the current year in light of FY 1999 performance and the resources appropriated for FY 2000.

Secondly, IRS management stated that, based on discussions with personnel in the OMB and the Department of the Treasury, they do not believe that

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

OMB Circular A-11 Section 232.8 applies in cases where measures were baselined, had no targets, or were labeled “TBD” during this phase of their reorganization.

Office of Audit Comment: In our opinion, the tabular presentation gives the reader a good historical perspective, but it does not always tell the whole story on what was considered in arriving at the final plan figures. The reader needs the “simple conclusive statement,” called for in OMB Circular A-11 Section 232.8, which assesses the effect of actual performance in FY 1999 on expected performance levels in FY 2000 for the 48 performance measures that IRS did not assess at all. We believe that some explanation is needed to fully comply with OMB requirements.

Additionally, we do not agree with IRS management’s position that OMB Circular A-11 Section 232.8 does not apply in cases where measures were baselined, had no targets, or were labeled “TBD” during this phase of their reorganization.

Baselined, no target, or TBD information was set out in the FY 2000 Congressional Justification, except for new measures added during FY 2000. The FY 2000 Congressional Justification (issued in February 1999) most likely would not have been in the hands of the reader evaluating information presented in the FY 1999 APPR because the APPR was part of the FY 2001 Congressional Justification (issued in February 2000). In our opinion, going from presenting no data (baseline, no target, or TBD) in the FY 2000 Congressional Justification to presenting data for the FY 2000 final plan in the FY 2001 Congressional Justification requires a simple conclusive statement, as set out in OMB Circular A-11 Section 232.8, to give the reader an assessment of the effect of actual performance in FY 1999 on expected performance levels in FY 2000.

Finally, IRS management did not address the six performance measures that TIGTA identified as being inadequately assessed.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

With the reorganization of the IRS into new business units, new baselines and possibly new performance measures will be established to accommodate each new business unit. While IRS management has stated that they expect to provide more information, as appropriate, when these measures are fully operational in the new organization, we encourage IRS management to reconsider their interpretation of OMB Circular A-11 Section 232.8 and provide more explanations of prior year efforts.

Conclusion

In our opinion, the management control process used to produce the IRS' first APPR did not ensure that all the elements requested by OMB guidance, Department of the Treasury guidance, and the Chairman, Senate Governmental Affairs Committee, were fully expanded upon. In the future, the process could be improved to help ensure that Congressional and Executive Branch decision-makers will have the objective information needed to assist them in appropriating and allocating federal funds. Also, the largest group of stakeholders, taxpayers, will have the information to allow them to assess the extent to which the IRS is producing tangible public benefits.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the adequacy and completeness of the Internal Revenue Service's (IRS) Fiscal Year (FY) 1999 Annual Program Performance Report (APPR). We performed the following work:

- I. Determined whether all the requested elements of the annual performance report were included and evaluated their adequacy and completeness. To do this, we:
 - A. Made an analysis of the FY 1999 APPR.
 - B. Compared the requested elements for an APPR, as shown in Office of Management and Budget (OMB) Circular No. A-11 (1999) and Department of the Treasury guidance, with those shown in the IRS' FY 1999 APPR.
 - C. Met with staff members of the Office of Strategic Planning and Budgeting (SBP).
 - D. Met with staff members of the Office of Strategic Planning and Evaluation of the Department of the Treasury.
 - E. Met with the Director, Office of Program Evaluation and Risk Analysis.
 - F. Held discussions with a staff member of the OMB.
 - G. Responded to the Chairman, Senate Governmental Affairs Committee's May 10, 2000, request to the Inspector General for Tax Administration to analyze the FY 1999 APPR using management challenges as a framework.
- II. Determined whether any goals were not met and whether the IRS had addressed how the goals will be met in the future. To do this, we:
 - A. Analyzed actual performance for FY 1999 and compared it to the planned performance goals shown in the final FY 1999 Annual Performance Plan.
 - B. Where goals were not met, made an analysis to determine whether the IRS addressed how a goal will be met in the future.
 - C. Met with staff members of the SBP office.
 - D. Met with staff members of the Office of Strategic Planning and Evaluation of the Department of the Treasury.
 - E. Met with the Director, Office of Program Evaluation and Risk Analysis.
 - F. Held discussions with a staff member of the OMB.

**The Internal Revenue Service Needs to Ensure That Its Future Annual
Program Performance Reports Include All Requested Information**

Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and
Exempt Organizations Programs)

John R. Wright, Director

Kevin Riley, Audit Manager

Michael Laird, Senior Auditor

George Franklin, Auditor

Steve Holmes, Auditor

**The Internal Revenue Service Needs to Ensure That Its Future Annual
Program Performance Reports Include All Requested Information**

Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Chief Financial Officer C:CFO
Deputy Chief Financial Officer for Strategic Planning and Budgeting CFO:SPB
Director, National Headquarters Management and Finance M
Office of Management Controls CFO:A:M
Chief Counsel CC
Director, Office of Program Evaluation and Risk Analysis M:O
National Taxpayer Advocate C:TA
Director, Legislative Affairs CL:LA
Audit Liaisons:
 Deputy Chief Financial Officer for Strategic Planning and Budgeting CFO:SPB
 Director, National Headquarters Management and Finance M
 Director, Legislative Affairs CL:LA

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Appendix IV

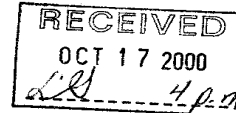
Management's Response to the Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 17, 2000



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

for Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT:

Bohulenzel
Draft Audit Report—"The Internal Revenue Service
Needs to Ensure that Its Future Annual Program
Performance Report Include All Requested
Information"

Thank you for the opportunity to respond to your draft report, "The Internal Revenue Service Needs to Ensure that Its Future Annual Program Performance Reports Include All Requested Information." The report reviewed the FY 1999 Annual Program Performance Report (APPR), our first report prepared under the Government Performance and Results Act (GPRA or Results Act).

Overall, we appreciate the time and effort you spent reviewing our work to implement GPRA over the past year. In response to some of your reports, we have designated a GPRA Executive pending implementation of our new Strategic Planning and Budgeting (SP&B) process. We will also provide additional disclosure of data limitations related to customer satisfaction surveys. Your reports have given us constructive feedback on our efforts to comply with the Results Act.

In developing the FY 1999 APPR, we addressed the need to discuss our performance information and provide all of the required information. Among other things, we regularly consulted Office of Management and Budget (OMB) Circular A-11, Department of the Treasury (Department) instructions, and other materials for guidance in preparing the report. We also worked with various Department and OMB staff who are knowledgeable about the IRS budget and programs, the Results Act, and the Executive and Congressional budget processes. We incorporated many of their suggestions and comments into the final report. In addition, we knew the FY 2001 Congressional Budget Justification (CJ), which included the FY 1999 APPR as well as the FY 2000 Annual Program Performance Plan and other budget and program information, contained a few hundred pages of information on our programs, performance measures, and budget.

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

While we will continue to provide the information required by the Results Act, we also must continue to work on making our reports understandable, useful, and informative. OMB Circular A-11 admonishes agencies to, "produce a report that is easily read and understood, and direct and concise in the information it conveys." As we develop and refine the new SP&B process which drives our efforts in this area, we will try to strike the right balance between providing too much detail versus too little for the different audiences who receive these reports. For example, while you ask us to include more details, in discussions with other stakeholders after transmittal of the CJ, some said we had too much information and needed to condense our presentation and discussion of the data.

In response to some of these issues, the Department changed the format of the CJ to have separate volumes for budget and performance data. We will also separately publish our FY 2000 APPR. This new approach may let us include more information on the issues raised by TIGTA in this draft. As we continue to meet our GPRA requirements, we look forward to working together to find ways to provide informative, concise, and useful reports to our readers.

Our comments on the specific recommendations and conclusions in the draft report are provided below in the attachment. If you have any questions about our response please contact me at (202) 622-9511 or Spencer Nelms in the Strategic Planning and Budgeting Division at (202) 622-8770.

Attachment

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Identity of Recommendation 1

To ensure that future APPRs provide stakeholders with all the information requested, TIGTA recommends that the Deputy Chief Financial Officer for Strategic Planning and Budgeting ensure that APPRs more fully expand on the information requested by ensuring that quantitative performance measures are presented for all major management challenges (MMCs) and high risk areas (HRAs).

Assessment of Cause

TIGTA believes that quantitative performance measures should be presented for all MMCs and HRAs. Among other things, your draft report cites a letter from the Secretary of the Department of the Treasury to the Chairman of the Senate Governmental Affairs Committee, Department of the Treasury guidance, and a letter from the Chairman of the Senate Governmental Affairs Committee to Inspectors General in support of your recommendation. Your draft also says the list of major milestones related to MMCs and HRAs does not show progress and is of limited value.

But you do not give the reader the context of our actions in compliance with the guidance and other materials related to MMCs and HRAs. For example, while your draft mentions the letter from the Secretary of the Treasury to the Chairman of the Senate Governmental Affairs Committee, it does not say the discussion of the issues, actions planned or underway, and relevant performance measures contained in the Secretary's letter were the primary source of the detailed materials contained in the CJ Special Analysis section.

Your draft also does not say the IRS Financial Analysis Division worked extensively with Department staff to develop the materials that went into the attachments to the Secretary's letter. Similarly, you do not mention the collaborative work of the Strategic Planning and Budgeting Division and Financial Analysis Division and Department staff responsible for issuing the MMC and HRA guidance (including meetings to discuss the content of the Special Analysis section and review and comment on the final materials transmitted to Congress). In short, the documents referenced in your draft and the actions discussed above did not happen in a vacuum, but were part of a process designed to provide the information requested by various stakeholders.

We also believe the language from OMB Circular A-11 is stronger in its support for the use of milestones than is conveyed in the draft report. The draft report only indicates that A-11 says that, "in some instances 'major milestones' can be used." However, A-11 says for performance goals related to management challenges, "often, such goals will be expressed as milestone events for specific remedial steps."

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

More generally, we believe the goal for developing measures related to MMCs and HRAs is to develop the appropriate measure, qualitative or quantitative. For example, in those areas where the IRS could more directly control the outcome related to the management challenge, such as Y2K and customer service, it has provided quantifiable and measurable goals. Due to the format and structure of the CJ, some of these measures were not included in the major management challenges and high-risk section but were included in other parts of the CJ. We can, however, explore providing more cross-references to other sections of the document.

Finally, during the IRS review of the major management challenges and high risk areas, such as tax filing fraud, we found our activities are not the sole cause of taxpayer behavior in some areas. As a result, we were reluctant to set an artificial goal such as committing to reducing filing fraud by a certain percent. However, in the areas where we believe statistical measures are not appropriate, we are committed to a series of actions and timeframes to address and lessen the risk. While these actions may not be quantitative, they are specific, relevant, and valid performance measures to assess our progress in addressing the major management challenges and high risks.

Corrective Action

Due to the format and structure of the CJ, we did not include certain quantitative measures in the major management challenges and high-risk section but we included them in other parts of the CJ. We will explore ways to provide more cross-references to other sections of the document, which contain such measures.

Implementation Date

Proposed: March 31, 2001 for issuance of the FY 2000 APPR. (Note: This date could change if the due date for transmittal of the APPR is amended or revised.)

Responsible Official

Director, Organizational Performance Division

Corrective Action Monitoring Plan

Review FY 2000 APPR

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Identity of Recommendation 2

To ensure that future APPRs provide stakeholders with all the information requested, TIGTA recommends that the Deputy Chief Financial Officer for Strategic Planning and Budgeting ensure that APPRs more fully expand on the information requested by giving special attention to including summaries of all findings and recommendations of program evaluations completed during the fiscal year.

Assessment of Cause

TIGTA believes that summaries of the findings and recommendations of the program evaluations completed during the fiscal year could be more complete. The draft report references OMB Circular A-11 section 232.2(a) that requires a summary of the findings and recommendations of program evaluations completed during the fiscal year.

We believe that the section on program evaluations was informative and useful to readers and consistent with OMB circular A-11. Among other things, the section provided readers with information on the links to the strategic plan, types of evaluation and analysis, types of methodology, a description of the study, a summary of results, findings and recommendations, and the strategic goal served. In short, this section provided a concise overview not just for the prior year, but for the current year and budget year as well. However, we will look for ways to provide more information on the findings and recommendations consistent with the form and content of the report and applicable guidance.

Corrective Action

We will try to provide more information on the findings and recommendations in program evaluation section of the APPR. The summaries in this section, however, must be consistent with the form and content of the report and applicable guidance.

Implementation Date

Proposed: March 31, 2001 for issuance of the FY 2000 APPR. (Note: This date could change if the due date for transmittal of the APPR is amended or revised.)

Responsible Official

Director, Office of Program Evaluation and Risk Analysis

Corrective Action Monitoring Plan

Review FY 2000 APPR

The Internal Revenue Service Needs to Ensure That Its Future Annual Program Performance Reports Include All Requested Information

Identity of Recommendation 3

To ensure that future APPRs provide stakeholders with all the information requested, TIGTA recommends that the Deputy Chief Financial Officer for Strategic Planning and Budgeting ensure that APPRs more fully expand on the information requested by ensuring that a more complete assessment of actual performance and its impact on expected future performance is included where applicable.

Assessment of Cause

TIGTA believes that a more complete assessment of actual performance and its impact on expected future performance could be presented for all performance measures. In its discussion of this point, TIGTA references OMB Circular A-11 section 232.8 which requires an assessment of the effect of actual performance levels in the past year on the estimated levels of the current year. The draft report also mentions Department of the Treasury guidance that included a five-year table of performance and a narrative example.

We have a different view from the draft report on this point. The Treasury Department format required a five-year table of performance data (FY 1999 through FY 2001). This presentation showed FY 2000 target levels next to the FY 1999 planned and actual levels and provided the reader with a best assessment of what could be accomplished in current year in light of FY 1999 performance and the resources appropriated for FY 2000. Based on our discussions with the Department, we understand the Department tabular format satisfies the A-11 requirement in all cases except those of unusual or counter-intuitive changes from one year to the next.

More generally, we also have a different view from TIGTA on the applicability of Section 232.8. Specifically, we do not believe that the section applies in cases where measures were baselined, had no targets, or were labeled "TBD" during this phase of our reorganization based on our discussions with OMB and the Department. However, we expect to provide more information, as appropriate, when these measures are fully operational in the new organization.

Corrective Action

N/A

Implementation Date

N/A

**The Internal Revenue Service Needs to Ensure That Its Future Annual
Program Performance Reports Include All Requested Information**

Responsible Official

N/A

Corrective Action Monitoring Plan

N/A